



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

## Result Update@ Dalal & Broacha

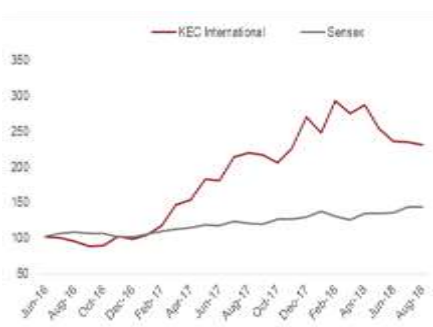
### BUY

Current Price	283
Target Price	351
Upside/Downside	24%
52 Week Range	Rs.209/442

### Key Share Data

Market Cap (Rs.bn)	71.9
Market Cap (US\$ mn)	1222
No of o/s shares (mn)	257
Face Value	2
Monthly	506,468
Avg.vol(BSE+NSE) Nos	
BSE Code	532714
NSE Code	KEC
Bloomberg	KECI IN

### Price performance



% Shareholding	Sep-18	Jun-18
Promoters	51.2	51.0
FII	9.8	12.4
DII	18.9	19.2
Others	20.1	17.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**Results inline -Revenue driven by railways:** The revenue of KEC International Ltd (KEC) was in line with our estimate showed a steady growth of 13% YoY to Rs24.09 Bn driven by growth in civil, solar and railway segment. Railways and civil business continued their growth trajectory. Revenues for Railways were up 254% YoY to Rs4.2bn. Growth in cables segment was led by higher sales of HT cables and exports. Cables and civil segment revenue was up 11% and 160% respectively. The dominant T&D segment showed a decline of 11% YoY to Rs15.1 Bn due to a delay in execution in the domestic market. T&D segment contribution decreased from 83% to 73% yoy while non-T&D segments' revenue contribution increased from 17% to 27% yoy.

EBITDA margin increased by 40bps yoy to 10.5%. In spite of increase in low margin segment like railways has increased margin improved yoy due to stable operating expenses. Hence, operating profit grew by 17% YoY to Rs2.5 Bn. Interest cost increased from Rs57cr to Rs77cr yoy as debt increased from Rs30n to Rs31bn. PAT grew by 9% to Rs974mn.

**Order book showed robust growth:** KEC's order book stood at Rs201.3bn (up 45% YoY) providing a revenue visibility of approximately 2 years on TTM revenues and order inflow stood at Rs27.5bn (down 2% YoY). Order book contains 71% T&D orders, 25% railways orders and 2% civil and cable orders. 51% are international orders including 10% from SAE. Order inflows stood robust at Rs76bn. 63% of order inflows are contributed by T&D while 22% contributed by railways. International orders contribute 53% of total order inflows. In domestic market while the T&D market has been slow over last few quarters, the tender pipeline has improved both from state and private side and Railways too is seeing good traction. KEC has L1 position in orders worth Rs40bn. It includes Rs6bn from PGCIL and Rs30bn are international T&D orders. It includes Rs8bn from Brazil. In International markets, KEC continues to see strong traction in markets like SAARC, Brazil and Africa. KEC got its first order in Dubai. Expect some orders to come in from Saudi, Africa, Thailand, Bangladesh and Malaysia.

**Outlook:** In Domestic T&D market while ordering has been slow, improving tender pipeline indicates positive outlook in coming quarters. Railway and civil business outlook also continues to be robust. In International markets, tender pipeline in MENA/SAARC has improved over the last few quarters. Management has maintained guidance of 15-20% growth. We expect KEC to post EPS of Rs20 and Rs27 over FY19E and FY20E respectively. At current price the stock is trading at 13.5x FY19E and 10x FY20E earnings. We maintain our Buy rating by valuing the company at 13x FY20E earnings. Our target price is Rs351.

### Key Financials

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY17	85,844	0.8	8,179	9.5%	3,048	106.0	11.9	23.6	19.2	19.5
FY18	100,580	17.2	10,062	10.0%	4,605	51.1	17.9	15.6	23.1	24.9
FY19E	116,673	16.0	11,901	10.2%	5,361	16.4	20.9	13.4	21.9	23.0
FY20E	140,007	20.0	14,701	10.5%	6,978	30.2	27.1	10.3	23.0	24.9



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<b>KEC International Quaterly Results</b>					
In Rs Mn	2QFY19	2QFY18	YoY(%)	1QFY18	QoQ(%)
Total operating income	24,095	21,322	13%	18,951	27%
Expenses	-21,552	-19,163	12%	-17,188	25%
Stock	0	0		917	
RM	-12,062	-14,816	-19%	-13,526	-11%
Employee	-2,068	-1,946	6%	-1,913	8%
Other expenses	-7,422	-2,400	209%	-2,666	178%
<b>EBITDA</b>	<b>2,543</b>	<b>2,158</b>	<b>18%</b>	<b>1,763</b>	<b>44%</b>
Other income	17	57	-70%	98	-83%
PBDIT	2,560	2,216	16%	1,862	38%
Interest	-768	-572	34%	-631	22%
Depreciation	-304	-279	9%	-272	12%
<b>PBT</b>	<b>1,488</b>	<b>1,365</b>	<b>9%</b>	<b>958</b>	<b>55%</b>
Tax	-514	-471	9%	-329	56%
<b>Net profit</b>	<b>974</b>	<b>894</b>	<b>9%</b>	<b>630</b>	<b>55%</b>
<b>Key ratios (%)</b>					
RM / Sales	50.1	69.5		66.5	
Empl / Sales	8.6	9.1		10.1	
OE / Sales	30.8	11.3		14.1	
EBITDA margin	10.6	10.1		9.3	
PBT margin	6.2	6.4		5.1	
Tax rate	34.5	34.5		34.3	
PAT margin	4.0	4.2		3.3	
EPS	3.8	3.5		2.4	
PBT margin	10.6	10.4		9.8	
EBIT margin	6.2	6.4		5.1	
<b>Revenue break up</b>					
T&D total	15,180	17,090	-11%	14,850	2%
Cables	2,650	2,390	11%	2,200	20%
Railways	4,210	1,190	254%	1,580	166%
solar	1,330	-		210	533%
Civil	1,060	-		150	607%
Inter SBU	(350)	-		(40)	
<b>Grand total</b>	<b>24,080</b>	<b>21,510</b>	<b>12%</b>	<b>18,950</b>	<b>27%</b>
<b>Order book break up</b>					
Segmental					
Transmission - Total	142,958	116,308	23%	110,962	29%
Cables	4,027	2,803	44%	2,706	49%
Civil+Solar	6,037	7,007	-14%		
Railways	50,336	14,013	259%	13,532	272%
<b>Grand total</b>	<b>203,358</b>	<b>140,130</b>	<b>45%</b>	<b>135,320</b>	<b>50%</b>



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### Financials

Profit & Loss (Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	85,178	85,844	100,580	116,673	140,007
Raw Materials	(61,798)	(59,489)	(72,716)	(84,121)	(100,805)
Employee Cost	(6,392)	(7,327)	(7,984)	(9,217)	(10,921)
Other Expenses	(10,064)	(10,849)	(9,819)	(11,434)	(13,581)
Cost of Sales	(78,255)	(77,665)	(90,518)	(104,772)	(125,307)
<b>Operating Profit</b>	<b>6,923</b>	<b>8,179</b>	<b>10,062</b>	<b>11,901</b>	<b>14,701</b>
Depreciation	(1,318)	(1,297)	(1,097)	(1,177)	(1,260)
PBIT	5,605	6,882	8,965	10,724	13,441
Other Income	103	289	404	167	97
Interest	(2,794)	(2,536)	(2,466)	(2,510)	(2,478)
Profit Before Tax	2,914	4,634	6,903	8,381	11,060
Provision for Tax	(1,436)	(1,587)	(2,298)	(3,020)	(4,082)
<b>PAT</b>	<b>1,478</b>	<b>3,048</b>	<b>4,605</b>	<b>5,361</b>	<b>6,978</b>
<b>Adj. PAT</b>	<b>1,478</b>	<b>3,048</b>	<b>4,605</b>	<b>5,361</b>	<b>6,978</b>

Balance Sheet (Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Equity Capital	514	514	514	514	514
Reserves	12,390	15,349	19,460	23,952	29,800
<b>Net Worth</b>	<b>12,904</b>	<b>15,864</b>	<b>19,974</b>	<b>24,467</b>	<b>30,314</b>
Long term borrowings	29,255	19,374	16,111	21,374	22,374
Short term borrowings	2,957	1,583	1,583	1,583	1,583
Total Debt	32,212	20,957	17,694	22,957	23,957
<b>Capital Employed</b>	<b>45,116</b>	<b>36,820</b>	<b>37,668</b>	<b>47,423</b>	<b>54,271</b>
Gross Block	14,982	15,066	16,566	18,066	19,566
Accumulated Depreciation	(4,957)	(5,902)	(9,096)	(10,603)	(12,240)
Net Block	10,025	9,165	7,470	7,464	7,327
Capital WIP	84	51	51	51	51
<b>Total Fixed Assets</b>	<b>10,109</b>	<b>9,216</b>	<b>9,983</b>	<b>7,515</b>	<b>7,378</b>
Goodwill & Intangible	1,952	1,910	1,920	1,920	1,920
Investments	254	1,304	393	393	393
Inventories	3,602	3,947	6,274	5,434	6,521
Sundry debtors	47,066	42,268	50,444	53,701	64,442
Cash & bank	853	2,080	2,313	2,567	2,345
Loans & advances and OI	24,905	26,424	33,798	35,481	42,578
Current Liabilities	(21,289)	(26,058)	(65,440)	(25,017)	(30,021)
Provisions	(1,036)	(1,047)	(1,009)	(1,598)	(1,918)
Working Capital	33,835	25,630	26,380	38,603	45,588
Deferred Tax Liabilities	(1,034)	(1,240)	(1,008)	(1,008)	(1,008)
<b>Capital Deployed</b>	<b>45,116</b>	<b>36,820</b>	<b>37,668</b>	<b>47,423</b>	<b>54,271</b>

Cash Flow Statement (Rs Mn)	FY16	FY17	FY18E	FY19E	FY20E
Pre tax Profit	2914	4634	6903	8381	11060
Add: Dep. & Amortization	1318	1297	1097	1177	1260
Total tax paid	(1436)	(1587)	(2298)	(3020)	(4082)
Other Adjustments	2794	2536	2466	2510	2478
<b>Cash Profit</b>	<b>5590</b>	<b>6881</b>	<b>8168</b>	<b>9048</b>	<b>10716</b>
(Inc) / Dec in					
Sundry Debtors	(6946)	4798	(8176)	(3257)	(10740)
Inventories	4069	(345)	(2327)	840	(1087)
Loans & Advances	(10240)	(1519)	(7374)	(1683)	(7096)
Current liabilities & Trade payables	1037	6498	17361	(7868)	11716
<b>Change in Working Capital</b>	<b>(12080)</b>	<b>9432</b>	<b>(517)</b>	<b>(11969)</b>	<b>(7207)</b>
<b>CF from Operating Activities</b>	<b>(6490)</b>	<b>16312</b>	<b>7651</b>	<b>(2921)</b>	<b>3509</b>
<b>CF from Investing Activities</b>	<b>(879)</b>	<b>(1412)</b>	<b>(963)</b>	<b>1291</b>	<b>(1123)</b>
<b>CF from Financing Activities</b>	<b>5652</b>	<b>(13880)</b>	<b>(6223)</b>	<b>1884</b>	<b>(2608)</b>
Cash at the start of year	2063	853	2080	2313	2567
Cash at the end of year	853	2080	2313	2567	2345

Ratios	FY16	FY17	FY18	FY19E	FY20E
OPM	8.1	9.5	10.0	10.2	10.5
NPM	1.7	3.6	4.6	4.6	5.0
Tax Rate %	(49.3)	(34.2)	(33.3)	(36.0)	(36.9)
<b>Growth Ratio (%)</b>					
Net Sales	0.6	0.8	17.2	16.0	20.0
Operating Profit	35.3	18.1	23.0	18.3	23.5
PAT	(8.2)	106.1	51.1	16.4	30.2
<b>Per Share</b>					
Earning Per Share (EPS)	5.8	11.9	17.9	20.9	27.1
Cash Earnings (CPS)	10.9	16.9	22.2	25.4	32.0
Dividend	1.0	1.6	2.4	2.8	3.7
Book Value	50.2	61.7	77.7	95.2	117.9
Free Cash flow	(7,369)	14,900	6,688	(1,630)	2,386
<b>Valuation Ratios</b>					
P/E (x)	48.7	23.6	15.6	13.4	10.3
P/B (x)	5.6	4.5	3.6	2.9	2.4
EV / Sales	1.2	1.1	0.9	0.8	0.7
EV / EBITDA	14.9	11.1	8.7	7.8	6.4
FCF Yield (%)	(2,632)	5,321	2,389	(582)	852
<b>Return Ratios (%)</b>					
ROE	11.5	19.2	23.1	21.9	23.0
ROCE*	12.7	19.5	24.9	23.0	24.9



## Result Update Q1FY18@ Dalal & Broacha

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